Blockchain and the Future of Financial Reporting

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Blockchain technology has become the latest disruptive force that senior-level financial executives need to consider when creating long-term plans. The Financial Executives Research Foundation (FERF) is collaborating with Deloitte to explore how blockchain is currently being adopted in the financial reporting community, the potential for industry disruption and the realistic next steps for the technology to be embraced.

As of today, a majority of a CFO's engagement with the technology comes in the payments and banking sector as so-called blockchain-based "cryptocurrencies" such as Bitcoin and Ethereum gain traction. At the same time, blockchain is moving beyond speculative traders and technology enthusiasts into cross-border payments and capital market structures.

But an increasing number of industry watchers and professionals say it will not be long before blockchain becomes the industry standard for accounting and reporting, upending decades of backend systems and reporting practices. The research will explore whether this disruption would be a logical next step given blockchain's underlying format of an open, trusted and easily accessible ledger system that speaks directly to the financial reporting community.

At its core, blockchain technology allows for the creation of a "distributed ledger" that records transactions between parties transparently using a secure system that immediately verifies data permanently. While Bitcoin and other cryptocurrencies are the most common form of transaction currently employing blockchain, the technology is agnostic to the data that can be recorded. That means everything from customer orders to fleet costs can be incorporated into a financial system using distributed ledger technology.

"It's very much like what financial preparers use today to capture transactions, but the major difference is that the database is maintained by a peer-to-peer network," says Will Bible, Audit & Assurance Partner, Deloitte & Touche LLP. "So there are redundant copies of the information being stored across that network. Because of the way the consensus protocols work within the network, it's tamper-proof. A lot of the reconciliation you have to do with traditional databases goes away once you have blockchain."

[*Click here to watch the full interview at FEI Daily*]

Recent statements have thrown into question Bitcoin trading and ecosystems but despite the negative press, accounting and financial reporting professionals should press ahead with exploring incorporating blockchain technology within financial statements.

"Bitcoin could disappear tomorrow and it would not affect the future of blockchain technology," says Campbell Harvey, Professor of Finance at Duke University's Fuqua School of Business. "One theoretical application of blockchain is to financial reporting and this is exactly the point in time to discuss advantages and disadvantages."

Harvey argues that despite recent criticisms of bitcoin, financial executives should not get distracted from the underlying benefits that allowed for the digital currency's rise to prominence.

Blockchain is a very general technology and it affects many different things, and many of FEI's member firms will be impacted in one way or another, and one particular way will be financial reporting," Harvey says. "The main mistake people make is that when you start talking about blockchain, they morph the discussion into Bitcoin."

The primary benefit of blockchain on the financial statement can be summed up in one term, according to Harvey: real time.

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"[Blockchain] is going to be more inherently trustworthy, it's going to be more accurate. Maybe you'll get those [numbers] at a more frequent pace," says Jake Benson, CEO of Libra, a New York startup building front-end reporting software based on blockchain. "You'll have increased transparency, increased frequency of date of delivery. I think they'll just generally be more real-time."

Based on discussions with industry professionals, the research will explore the blockchain debate. It will include and in-depth survey that will focus on their perceptions of the technology and what could be the largest potential areas of disruption.

To get updates on this project, make sure to sign up for FEI Daily or visit daily.financialexecutives.org.

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